

Retail in London: Working Paper G

Small Retailers

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Contents

Executive summary.....	iii
1. Introduction	5
2. Issues facing small retailers	7
3. Retail closures	20
4. Potential actions for small retailers	22
5. Conclusions.....	24
Bibliography.....	25
Acronyms	28

Executive summary

This paper is part of the wider GLA Economics study of London's retail sector. It tries to determine the main issues facing small retailers in London and how these might differ to those faced by large retailers, and retailers in the rest of the UK.

Over at least the past 20 years the market share of large retailers, especially grocery retailers, has increased significantly.¹ This increased scale has resulted in greater buyer power for large retailers and has in turn resulted in large retailers being able to sell goods at lower prices than small retailers in many instances. This has resulted in a kind of virtuous circle for the largest retailers whereby the cost advantages of greater buyer power can be invested in improved customer facilities or reduced prices which then drive greater sales and so even greater buyer power starting the cycle once more. As long as this process does not lead to excessive market power, something which the national competition authorities would need to consider, it is likely to be beneficial to consumers by bringing about lower cost goods. Assuming that large retailers are not of a scale to exercise market power (ie to raise prices without fear of retaliatory action from competitors) then restricting the growth and expansion of large retailers, in order to increase the number of small retailers for instance, will result in higher prices to consumers (as the scope for retailers to exploit greater buyer power will be limited).

Restricting the growth and expansion of large retailers, through its effect on limiting cost reductions, might also result in limiting the number of areas in which retailers operate. That is, reducing the costs of operation is likely to mean that areas which previously were not economically viable become more viable and so retailers move into the area. Restricting the growth and expansion of large retailers is likely to reduce cost savings and, as a result, may limit the number of areas retailers operate in.

These effects are driven primarily by the buyer power achieved by large retailers. Individually, small retailers are not able to achieve any significant buyer power. However, to the extent that they form buying groups, small retailers may be able to address some of the competitive advantages of large retailers in terms of buyer power and so similarly address some of the effects outlined above.

The recent move by retailers, predominately large grocery retailers, into small format stores in high street locations together with extended opening hours has seen small retailers lose much of their previous comparative advantage of convenience (in terms of location and opening hours). As with the growth in buyer power, these changes are the result of market forces and suggest that no public policy intervention is required on grounds of economic efficiency (save that deemed necessary by national competition authorities to address any competition issues that may arise as a result of these changes).

While the costs of operating in London, as compared to the rest of the country are higher for all retailers, there are some costs that impact particularly on small retailers. The cost of retail crime

¹ Thorpe D (Head of Research John Lewis Partnership), October 1999, *Superstores and employment in retailing*, The National Retail Planning Forum

appears to fall more heavily on small retailers when compared to large retailers. In addition, the costs of complying with government regulations, for example the Disability Discrimination Act, fall disproportionately on small retailers. Local Authorities and other bodies such as chambers of commerce or trade associations, could provide support and/or advice to small retailers on compliance with regulations in order to reduce the costs of implementing legislation.

The accessibility of retailers to customers is an issue for all retailers in London, however some of the issues of access impact more acutely on small retailers than large retailers. This is because large retailers can spread the cost of disruptions to customer accessibility over a greater level of sales (usually in a greater number of stores) when compared to small retailers. Therefore it is important that the impact on small retailers of potential changes to streetscapes and/or changes to transport in London are considered by the authorities concerned.

Whilst many of these factors, together with factors such as the issue of succession, have resulted in a number of small retailers closing down, there are ways in which small retailers can compete more effectively with large retailers. These include increased specialisation and competing on quality of service for instance.

1. Introduction

This paper is part of the wider GLA Economics study of London's retail sector. The purpose of this paper is to try and determine the main issues facing small retailers in London and to compare and contrast these with the issues faced by small retailers in the UK as a whole and, retailers of all sizes in London. The paper draws on the findings of a literature review and interviews with various organisations representing small retailers.² These organisations represent approximately 100,000 small retailers across the UK.³

Defining a small retailer as one that employs between zero and 10 people,⁴ in London in 2004 there were 34,763 small retailers employing 104,154 people.⁵ Using this same definition, in Great Britain (GB) in 2004 there were 243,508 small retailers employing 831,099 people.⁶ Small retailers account for 87 per cent of all retailers in London compared to 85 per cent for GB as a whole. London accounts for around 14 per cent of all small retailers in GB.

Between 1998 and 2004 the number of small retailers fell by 4 per cent (a total of just over 10,000 small retailers) in GB, and by 2.3 per cent (just over 800 small retailers) in London. Over the same time period the number of large retailers (employing 10 or more people) increased by 9.5 per cent in GB, and by 13 per cent in London.⁷ However, care is needed when using such data to inform on changes in the number of different sized retailers over time. This is because the number of small retailers as defined by employment size can be affected by a number of factors. Firstly, the number may be increased by an increase in the number of new retail business start-ups. Secondly, the number may fall due to a number of small retail businesses leaving the industry. On top of these reasons the number of small retailers may increase if many medium-sized retailers reduce their size (and cross over the employment size boundary to become small retailers). And lastly, the number of small retailers may fall if many small retailers grow and become medium-sized retail businesses. Therefore, whilst there has been a smaller reduction in the number of small retailers in London than in the UK, over the recent past it is difficult to be specific about the reasons for this difference.

As has become apparent from other work on the retail sector, and as the small retailer organisations themselves told us, it is difficult to obtain information from retailers. Therefore

² The groups interviewed were the National Federation of Newsagents, the Association of Convenience Stores, the Booksellers Association, the Federation of Small Businesses and the British Shops and Stores Association.

³ Note, some of the retailers may be members of more than one organisation.

⁴ Another definition that could be used is a retailer that is less than 3,000 square feet in size. The Office of Fair Trading used this definition in its 2004 report: Anticipated acquisition by Tesco Plc of 45 outlets from Adminstore Ltd. The OFT's decision on reference under section 22(1) given on March 2004.

⁵ ONS, Annual Business Inquiry Workplace analysis. Note this figure does not include working proprietors. The category is 'Retail trade except of motor vehicles'.

⁶ ONS, Annual Business Inquiry Workplace analysis. Note this figure does not include working proprietors. The category is 'Retail trade except of motor vehicles'.

⁷ ONS, Annual Employment Workplace Analysis

most of the information received for this work was from interviews with small retailer organisations, rather than from direct feedback from small retailers themselves.⁸

In what follows, this paper looks at various issues facing small retailers including competition, especially that from large retailers; changes in consumer demand; the costs facing retailers; and, customers' accessibility to retailers in London. The paper then considers some of the potential actions small retailers might take in order to mitigate the detrimental effects of some of these issues and concludes by drawing together the main findings of the paper and the implications for public policy.

⁸ Indeed one of the small retailer organisations sent the questionnaire (used in the interviews) to all of their members but received no response.

2. Issues facing small retailers

Competition

Competition from other small retailers

None of the small retailer organisations that were interviewed by GLA Economics cited competition from other small retailers as one of their main concerns. In addition there is no evidence in the literature to suggest that competition amongst small retailers is a major issue for them.

The small retailer organisations told GLA Economics that small retailers tend to work collaboratively. For example, in situations where a small retailer cannot provide a customer with the required goods, the small retailer is more likely to refer the customer to another small retailer than to a large retailer. In this sense many small retailers see themselves as complementary to one another rather than in direct competition.

Moreover, small retailers are seldom in direct competition with one another because it is unlikely that more than one small retailer selling a particular good will be located in the same area. For example there is unlikely to be more than one butcher or more than one independent bookstore on most high streets.

One of the small retailer organisations did raise competition from charity shops as an issue for small retailers. The organisation questioned whether there was an element of unfair competition from charity shops because they have lower costs due to cheaper labour costs (in many instances voluntary labour), lower business rates, better rental deals and because the goods they sell are provided to them at no cost.

Whilst charity shops are likely to have a cost advantage over other retailers (large and small), it is likely that the goods sold by charity shops are not perceived by the majority of consumers as directly substitutable for those sold in other retail outlets. In particular the quality and range of goods sold in a charity shop may not be perceived to be the same as that sold in other retail outlets. Nevertheless, it may be that, especially for certain sectors, small retailers face particularly strong competition from charity shops.

Competition from large retailers

A commonly recurring topic in the literature and from the interviews is the issue of competition from large retailers. A number of the issues that relate to the competition small retailers face from large retailers are discussed below.

Size of large retailers

Large retailers have significantly increased their market share over the past few decades. For instance, in food retailing in 1976 large multiples⁹ (those with turnover of more than £5 million) accounted for 50 per cent of all retailing turnover. By 1991 the proportion accounted for by

⁹ Multiples are food retailers with multiple outlets; often supermarket chains.

large firms had risen to almost 79 per cent.¹⁰ As well as this McGoldrick found that one of the most significant features of the retail industry has been the increasing market share of the 'multiples' at the expense of other types of retailer.¹¹

To this end one of the small retailer organisations expressed its concern about Tesco's acquisition of Adminstore Limited (Adminstore) early in 2004. This acquisition involved 43 small stores (under 280 square metres in size) located predominately in central London. Their concern was that the acquisition would increase Tesco's market share to a point where it would be impossible for small food retailers to remain in the market.

The Office of Fair Trading (OFT) investigated Tesco's acquisition of Adminstore but did not refer the case to the Competition Commission. The OFT concluded that the acquisition by Tesco of Adminstore would not result in a substantial lessening of competition within a market, or markets, in the UK. One of the main reasons for the OFT's decision is because it feels that the barriers to setting up small grocery stores are very low. The argument is that if Tesco tried to raise prices in its small stores then other parties could, relatively easily, set up small grocery stores in order to compete, forcing Tesco to maintain its price, or more plausibly, discouraging Tesco from ever initiating the price rise.¹²

Buyer power

One effect of the increased market share of large retailers is that they have more buyer power than small retailers and can negotiate lower prices from suppliers. Consequently large retailers are able to sell their goods at prices that small retailers frequently find it difficult to compete with. Hence the prices charged by small retailers appear uncompetitive and they lose trade because of it.

The small retailer organisations told GLA Economics that in some cases large retailers are able to buy products for such a low price that they are able to sell their products for a lower price than small retailers can buy them for from the wholesaler. Indeed in its paper on improving shopping access for people living in deprived areas the Department of Health found that in many cases the person on the street could buy goods more cheaply from multiple retailers than small shopkeepers could from wholesalers.¹³

The greater buyer power of large retailers as compared to small retailers is a significant competitive advantage for large retailers. Moreover, it is likely to be a competitive advantage that reinforces itself. Dobson¹⁴ cites a virtuous circle for the very largest retailers whereby size and market share create bargaining concessions from suppliers. This provides a cost advantage for large retailers over small retailers which allows them to invest in either improved customer facilities or reduced prices. This increases the attractiveness of large retailers compared to small

¹⁰ Burke T & Shackleton J, 1996, *Trouble in Store? UK Retailing in the 1990's*, Institute of Economic Affairs, p.13

¹¹ McGoldrick P, 2001, *Retail Marketing*, 2nd Edition

¹² The Office of Fair Trading, 2004, *Anticipated acquisition by Tesco Plc of 45 outlets*

¹³ Department of Health, Policy Action Team 13, *Improving shopping access for people living in deprived areas: A paper for discussion*, National Strategy for neighbourhood renewal.

¹⁴ Dobson P W, 2003, *Competition and Collaboration in European Grocery Retailing*, in European Retail Digest, Issue 39, Autumn 2003

retailers and therefore leads to even greater sales for the large retailers which further reinforces their buyer power and so the cycle continues again.

Moreover, it may be that cost reductions gained through greater buyer power (as well as other areas) enables large retailers to expand into more areas. That is, by reducing costs, areas that previously were not served may become economically viable and so are served by large retailers. This move of large retailers into previously underserved areas may make the area more viable for other retailers through the effect large retailers have on footfall in the area. This issue of retailers serving underserved areas is considered in more detail in GLA Economics' *Retail and Regeneration* working paper.

Loss leading

Related to the buyer power of large retailers is the practice of below cost selling or *loss leading*. There is evidence to suggest that some retailers sell goods at below cost in order to gain market share.¹⁵

The practice of loss leading by large grocery retailers was considered in the Competition Commission's 2000 supermarket report.¹⁶ Small retailer organisations are concerned about the practice of loss leading by large retailers over prolonged periods of time, because small retailers are not able to compete in this way for any length of time. The organisations said that because small retailers do not compete on price they lose market share to large retailers whenever below cost selling or loss leading practices are used.

The practice of 'predatory pricing', whereby a company prices below cost for a period long enough to drive its competitors out of the market, is prohibited by competition law. However, as noted earlier, the buyer power of large retailers is likely to be such that even without selling at below cost, the prices charged by large retailers are likely to be unachievable by small retailers. As a result the prices charged by small retailers will look uncompetitive when compared to large retailers. Therefore, it is likely that because of the buyer power possessed by large retailers, even without selling below cost, the prices charged by large retailers will be such that small retailers will find it very difficult to compete.

Store format and location of large retailers

Out of town versus town centres

Competition between large retailers and small retailers is often characterised as being between out-of-town stores and town centres. It has been argued that shopping centres in out-of-town locations have drawn customers away from more traditional high streets. The past few decades have seen an increase in shopping in large, out-of-town stores and shopping centres, which it has been argued has accelerated the decline of local shops.

¹⁵ Kjell P, 2003, *The retail giants global expansion and local concerns*, in Corporate Breakdown: Analysis of real stories behind corporate mergers and acquisitions, Edition 5, February 2003, New Economics Foundation

¹⁶ Competition Commission, 2000, *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*, p 247

The changing dynamics of retailing, in the grocery sector in particular, is illustrated by an analysis of the different classifications in the Yellow Pages over time. In the period between 1992 and 2002 there was an increase of 8 per cent in the number of supermarket entries in the Yellow Pages. Over the same period there was a reduction of 20 per cent in Bakers and Confectioners, 40 percent in Butchers, and 59 percent in Greengrocers and Fruit Sellers.¹⁷

In addition to this retailers, and in particular grocery retailers, have widened the range of goods and services they provide. Indeed McGoldrick found that one of the reasons that grocery retailers have broadened the range of goods they provide is because consumer spending on food has not increased relative to spending on other categories.¹⁸ Goods such as CDs, books, clothing, kitchenware, and electrical goods are increasingly being sold by large grocery retailers as well as services such as insurance and banking. As a result of these changes it has been argued that local centres have become fragile and are contracting.¹⁹

Measuring the effect of these changes on small retailers (or town centres in general) is difficult given the paucity of data. Other studies have attempted to investigate the effect of large grocery retailers through their effect on employment. One study suggests there has been a long-term decline in full-time retail employment despite considerable growth in the level of retail sales (whether measured in real or volume terms).²⁰ However, looking at the period between 1982 and 2003 in London, whilst full-time employment in the retail sector fell slightly, part-time employment increased quite strongly. Therefore whilst full-time employment has fallen slightly over time, part-time employment has increased to leave total retail employment in London higher in 2003 than in 1982²¹. Work by the Centre for Advanced Spatial Analysis (CASA) commissioned by GLA Economics, which looks at changes in retail in London between 1971 and 2000 will also inform on this issue and will be published separately²².

Large retailers moving into high street locations

In recent years large retailers, and particularly grocery retailers, have been increasingly moving back into small format stores in high street locations. For instance Ruston talks of large grocery retailers pouring resources back into town centres after years of growth in out-of-town centres.²³

The small retailer organisations expressed their concerns about large retailers recently moving into high street locations. The organisations are concerned because they believe that, especially in relation to grocery retailing, that small retailers may be unable to compete with the smaller format stores run by the large grocery retailers. Indeed the New Economics Foundation notes that Tesco Express stores have reportedly caused drops in business of 30 to 40 per cent for

¹⁷ Yell, 2004, *The Alternative Census*

¹⁸ McGoldrick P, 2001, *Retail Marketing*, 2nd Edition

¹⁹ Department of Health, Policy Action Team 13, *Improving shopping access for people living in deprived areas: A paper for discussion*, National Strategy for neighbourhood renewal, P 37

²⁰ Thorpe D (Head of Research, John Lewis Partnership), October 1999, *Superstores and employment in retailing*, The National Retail Planning Forum, p 1

²¹ GLA Economics, 2006, *Retail in London: Working Paper E – Retail and the Labour Market*

²² GLA Economics, *Retail in London: Working Paper – Tracking Retail Trends in London* (forthcoming)

²³ Ruston P, 1999, *Out of Town Shopping. The future of retailing*, The British Library, p 64

other local shops.²⁴ While this figure is unlikely to be entirely robust for every local store experiencing the opening of a Tesco Express it seems logical to conclude that the move by large retailers will have some impact on the small retailers already on the high street.

One of the small retailer organisations told us that the brand strength of large retailers was a particular issue for small retailers. The organisation said that because consumers tend to be more familiar with the goods stocked by large retailers, this engenders some loyalty to them as compared to small retailers. In addition large retailers have schemes, such as loyalty cards, that are designed to increase customer loyalty. What this means is that when large retailers set up a small format store on the high street they already have a certain amount of customer loyalty and therefore an advantage over small retailers in the area.

Whilst it is likely that small retailers that compete directly with large retailers will face very difficult conditions when a large retailer enters their area, due to the cost and brand advantages of large retailers, it is likely that other small retailers in the area may benefit, in terms of increased sales, due to increased footfall brought about by the large retailer. That is, it has been argued that when a large retailer enters an area it draws a greater level of footfall to the area. Other retailers in the vicinity of the large retailer will benefit from this increased footfall through greater sales. However, another result of this increased footfall is likely to be increased rents – as more retailers see the area as viable enabling landlords to raise rents. Therefore, other small retailers in the area that do not compete directly with the large retailer may find conditions more difficult if their sales, which will benefit from the increased footfall, are insufficient to cover the increased rental, which also results from the increased footfall. Nevertheless, whilst the arrival of a large retailer to an area may impact on a number of retailers in the area – both through direct competition and indirectly through their effect on rental levels – it is likely that other retailers will enter as a result of the greater footfall thus maintaining retail (albeit not the same retail as previously) in the area.

Some have argued that this change in the composition of the High Street should be resisted, arguing that small retailers provide diversity of choice for consumers, supply goods and services that might not otherwise be provided by the large retailers and generally bring about a more socially agreeable environment. However, evidence that small retailers do bring about such an environment is weak. Indeed, it can equally be argued that if there is a demand for a particular good or service then the large retailers will recognise the consumer demand and provide for it; that is having small retailers is not a necessary condition for providing diversity and choice in goods or services. Except in the case of retailers that provide very specialised goods or services, it is likely that large retailers will generally provide goods and services wherever there is sufficient consumer demand for them.

²⁴ New Economics Foundation, 2003, *Ghost Town Britain II: Death on the High Street*, p2

Planning policy

One reason for large retailers moving into high street locations could be the result of changes to the Office of the Deputy Prime Minister's planning policy in the form of Planning Policy Guidance 6 (PPG6) *Town centres and retail developments*, in 1996. The key features of PPG6 included:

- An emphasis on a plan-led approach to promoting development in town centres
- An emphasis on the sequential approach for selecting sites for development
- Support for local centres.²⁵

A new Planning Policy Statement (PPS6), which supersedes PPG6, was published in early 2005. Broadly speaking it maintains the focus on in-town development.

In general, the small retailer organisations felt that planning policy did not directly affect small retailers in London. More important was the indirect effect on small retailers through planning policy's effect on large retailers. This issue is considered in more detail in GLA Economics' forthcoming *Retail in London: Working Paper – The Impact of Planning on Competition and Productivity*.

Changes in consumer demand

As well as planning policy, changes in consumer demand may have contributed to the increase in the number of small format stores of the large retailers. For instance it could be argued that in recent years whilst consumers' disposable income has increased, the amount of time available for shopping has fallen. These changes may have led to an increase in demand for longer opening hours and more convenience both in terms of location (hence more high street stores) and in terms of the goods demanded (for instance more ready-prepared foods).

The large grocery retailers have adapted to the changes in consumer demand by offering 'fresh and chilled' meals and by extending their opening hours, with some introducing 24-hour opening times. In addition many stores of the large grocery retailers (both large and small stores) are now open on a Sunday, following the relaxation of the Sunday Trading Laws. This is a significant problem for small retailers because in the past, extended opening hours tended to act as a comparative advantage for small retailers over large retailers. As more large retailers use extended opening hours this comparative advantage is eroded. Indeed there is evidence in the literature to suggest that small retailers have seen a fall in their takings since the move towards Sunday Trading. The London Chamber of Commerce in its study of the independent retail sector found that just over 80 per cent of respondents to their survey (of small retailers) said that the relaxation of Sunday Trading Laws had led to a fall in their takings.²⁶

Small retailers have also found it more difficult to adapt to these changes in consumer demand. Part of the reason for this is because of the costs involved in adapting to the changes. For example, in relative terms, it is more expensive for small retailers to stay open longer than it is for large retailers. The reason for this is because large retailers are likely to have some staff

²⁵ Key Note, 2003, *Shopping Centres*, in Market Assessment Report

²⁶ Asian Business Association Report, September 1996, *The prospects of the independent retail sector*, London Chamber of Commerce and Industry, p7

employed 24 hours a day (for example people stocking shelves) and therefore it does not increase their costs as much to stay open longer.

Further in many instances small retailers will not have the floorspace required to offer 'fresh and chilled' meals or other goods demanded as a result of changes in consumer behaviour. Moreover, in situations where floorspace is not an issue small retailers may struggle to raise the capital to make the necessary changes to their store in order to adapt to consumer demand, for instance for purchasing the fridges and cabinets necessary for 'fresh and chilled' meals.

It can be seen that competition from large retailers, particularly in the grocery sector, has impacted significantly on small retailers. Perhaps most importantly, the greater buyer power that the scale of large retailers delivers enables them to be much more competitive on price (in their large or small format stores) when compared to small independent retailers. The move of the large, particularly grocery, retailers into providing a wider range of goods and services as well as small format stores in high street locations will increase the competition faced by many small retailers. As a result of these changes and other factors such as changes in opening hours for instance a significant amount of small retailers' previous comparative advantage in terms of convenience has been lost.

Cost of operating in London

The cost of operating in London for both small and large retailers is higher than elsewhere in the UK. The main elements of cost are discussed below.

Rent

Rents are high across the UK, and Burke and Shackleton state that it has been plausibly argued that many of the problems of retailing in the UK come from excessively high rents. The basis for this argument is that rents have risen regardless of trading conditions and are not related to profitability.²⁷

Rents have increased significantly in the UK over recent years and this has affected retailers of all sizes.²⁸ For instance Boots the chemist is reported to have seen rents almost double at the first rent review from retail units it took in 1997.²⁹

The small retailer organisations highlighted *upward only rent reviews* (UORR) as a particular issue for small retailers. The organisations feel that UORR's are unfair and rents should be based on the performance of the retailer (for example on turnover) instead.

Business rates

The small retailer organisations told GLA Economics that they are concerned that the 2005 review of business rates will lead to a significant increase in rates. Such an increase will impact on both large and small retailers.

²⁷ Burke T & Shackleton J, 1996, *Trouble in Store? UK Retailing in the 1990's*, Institute of Economic Affairs, p72

²⁸ GLA Economics, 2005, *Retail in London: Working Paper A – Retail and the West End*

²⁹ Retail Week, October 2003, *Property analysis – Comment – Peaks and Troughs of out-of-town retail*

Figure 2.1 shows the average rateable value of properties in the UK (where the rateable value of a property is based primarily on its rental value – a professional view of the annual rent for a property if it were offered vacant on the open market). The chart shows that rateable values are higher in London than anywhere else in the UK, and this is particularly so for retail and offices.

Figure 2.1: Average rateable value by bulk class and region, 2004



Source: Valuation Office Agency

Rateable values for retail space in London are over £140 per square metre, which is considerably higher than the next highest region, the South East, which has a rateable value of around £100 per square metre.

Staff retention

The median hourly rate of pay for employees in the retail sector is slightly higher in London than elsewhere in the UK. Employees in the retail sector in London earn a median hourly rate of around £6.50 compared to £5 in the rest of the UK.³⁰ However people employed in the retail sector in London earn less than those employed in other sectors. The median hourly rate of pay of employees in other sectors in London is £11.10.

The small retailer organisations reported that turnover of staff in the retail sector is high and that good staff are hard to retain. The low rate of pay in the retail sector compared to other sectors could explain the high turnover and difficulty in retaining staff. However, high staff turnover in the retail sector is not necessarily a sign of a particular problem as there are a number of reasons for high staff turnover. For example the retail sector has a high proportion of students working part time while they study but who leave the retail sector when they finish

³⁰ GLA Economics, 2006, *Retail in London: Working Paper E – Retail and the Labour Market*

studying. In addition, the retail sector experiences a lot of seasonal employment (for example around Christmas), which will also raise the level of staff turnover.

One of the small retailer organisations highlighted the impact of the minimum wage on the wage expectations of employees. It said that the recent increases in the minimum wage affected wage demands of existing employees because they expected their wages to increase at the same rate.

Labour market issues such as staff turnover and pay are considered in GLA Economics' *Retail in London: Working Paper E – Retail and the Labour Market*.

Crime

Crime is more prevalent in London than elsewhere in the UK and is more prevalent in retail than in other sectors.³¹ Indeed a report by the Home Office into crime against retailers and manufacturers found that retailers were more likely to be the victims of crime than manufacturers. For example, in 2002, 78 per cent of retailers had been the victims of at least one crime as compared to 52 per cent of manufacturers. The report also found that retailers in London were more likely to be the victims of crime than retailers in other parts of the UK.³²

Retail crime is very costly, with the British Retail Consortium valuing losses from crime at £1 billion in 2003.³³ Whilst the Home Office report found that large retailers experienced more crime than small retailers, this is to be expected given that large retailers have more sites and so have a greater probability of experiencing crime. However, the report highlighted that crime can have a serious effect on the viability of small retailers.³⁴ In addition, crime is more of an issue for small retailers because they are less able to withstand the losses. For example data from Australia shows that the collapse of many small businesses is in part likely to be due to their inability to identify shrinkage and stem its tide³⁵. The impact of crime is not just felt in terms of cost. For instance a survey of small retailers found that almost a third of survey respondents had changed their trading hours as a result of crime.³⁶ Moreover, it should be noted that retail crime is often not reported to the police, for example, the Home Office report found that on average nearly 60 per cent of retailers did not report crime.³⁷

³¹ Greater London Authority, 2004, *The Case for London: London's loss is no-ones gain. The Mayor of London's submission to the 2004 spending review*. Refer also to The Home Office, 2004, *Crime against retail and manufacturing premises: Findings from the 2002 Commercial Victimisation Survey*

³² Greater London Authority, 2004, *The Case for London: London's loss is no-ones gain. The Mayor of London's submission to the 2004 spending review*; The Home Office, 2004, *Crime against retail and manufacturing premises: Findings from the 2002 Commercial Victimisation Survey*

³³ British Retail Consortium, 2005, *BRC retail crime survey: Cost of crime up, violence against staff up*.

³⁴ The Home Office, 2004, *Tackling crimes against small businesses: Lessons from the small retailers in deprived areas initiative*

³⁵ Nelson D & Perrone S, May 2000, *Understanding and Controlling Retail Theft*, No. 152, Australian Institute of Criminology

³⁶ New Economics Foundation, 2003, *Ghost Town Britain II: Death on the High Street*, p2

³⁷ The Home Office, 2004, *Tackling crimes against small businesses: Lessons from the small retailers in deprived areas initiative*

Compliance with regulations

All of the small retailer organisations highlighted the cost of complying with regulations as a particular issue for small retailers (both in London and the UK). The regulations that were specifically mentioned are as follows:

Disability Discrimination Act 1995

Some of the small retailer organisations expressed concern at the cost of compliance with the Disability Discrimination Act 1995. Their comments related to the cost of making their store accessible to people with disabilities. The cost of complying with the Disability Discrimination Act may fall disproportionately on small retailers compared to large retailers because large retailers are able to absorb the cost of making their store accessible to people with disabilities over a greater level of sales when compared to small retailers.

Licensing Act 2003

The Licensing Act (the 'Act') is part of the Government's strategy for combating alcohol-related problems, and covers the sale of alcohol by retailers.³⁸

In the past, the licensing process was administered by the magistrates court and retailers applied for a new licence every three years (at a cost of £30). However this process was not self-funding; the £30 fee did not cover the cost of processing the application.

Under the new Act, local authorities will administer the licences, and premises that wish to sell alcohol will need to apply for a licence. Once the premise is issued with a licence they do not need to go through the process of applying for the licence to be renewed, but they need to pay an annual fee.

The new Act is designed to be self-funding, so the fees are likely to be higher than in the past. The small retailer organisations are concerned about the level of these new fees and how long the new licence process will take. Again the cost of complying with the Act is likely to fall disproportionately on small retailers because large retailers are able to gain economies of scale in the application process. This is because as the large retailers make more applications they become faster and take less time as compared to small retailers.

It is clear that the costs of operating in London are higher than elsewhere in the UK as evidenced by the higher rental and rates costs. Given the higher rates of crime in London, and given that crime affects retail more than other sectors, crime is a particular issue for small retailers in London. The costs of complying with Government regulations, for example the Disability Discrimination Act, also fall disproportionately on small retailers as compared to large retailers. Local authorities and other bodies such as chambers of commerce or trade associations, could provide support and/or advice to small retailers on compliance with regulations in order to reduce the costs of implementing the legislation. To this end, one of the small retail organisations expressed dissatisfaction with the service provided by London's Business Link. Their concern was that the advice provided by London's Business Link sometimes was not viewed as impartial by retailers because they are involved in both the directing of

³⁸ Department for Culture Media and Sport: www.culture.gov.uk/

businesses to sources of advice, and in providing that advice. Whilst it is not clear whether this is a view shared by the wider retail industry in London, Business Link has recently moved more towards a brokerage role where it diagnoses the business' needs whilst other organisations deliver the service required; it is hoped that this model will help to deal with the conflict of interest issues like that outlined above.

Technology

Internet

None of the small retailer organisations interviewed perceived the Internet to be a particular threat to small retailers. Some of the organisations said that in the convenience market, by definition, people do not buy goods ahead of time so there is a limited scope for ordering on the Internet. Moreover, some of the small retailer organisations stated that they feel that there will always be a place for shops. According to Key Note research the proportion of people preferring to shop online rather than visit a shopping centre is 6 per cent.³⁹

In fact some of the small retail organisations said that there are opportunities for small retailers to use the Internet to their advantage. This is because the cost of having their own Internet site set up and maintained is low enough so as to be a cost effective option for some small retailers. The Internet provides retailers with the opportunity to reach a wider geographical market than a store by itself, and there are potential savings to retailers from having customers order directly from their website as they can have goods sent directly from the wholesaler to the customer.

Lack of IT training or skills

While none of the small retailer organisations interviewed thought that the Internet is a particular issue for small retailers, they did say that there is a lack of information technology (IT) knowledge amongst small retailers.

The small retailer organisations said that the reason for the lack of IT knowledge amongst small retailers was because small retail outlets often comprise of the owner or the owner and one employee only. The organisations said there is a feeling among small retailers that the level of IT knowledge required to have a real effect on the business is too much to justify the level of IT training or equipment required.

Accessibility to shops

Accessibility is a significant issue for all retailers in London. Central London is particularly dependent on its public transport system to bring people into the city: for instance every weekday, 6.3 million journeys are made on London's buses and 3 million journeys are made on the Underground.⁴⁰ One of the small retailer organisations said that accessibility is particularly important in central London because there is not a large residential population (to support retailers) and retailers are reliant on customers being able to travel to their stores.

Given central London's reliance on public transport, central London retailers' ability to compete with out-of-town shopping centres will depend to a great extent on the performance of public

³⁹ Key Note, 2003, *Shopping Centres*, in Market Assessment Report

⁴⁰ See Transport for London: <http://www.tfl.gov.uk/tfl/press-centre/facts/default.asp>

transport. In particular disruptions to public transport, such as strikes and closures have a significant impact on retailers in London. A relatively recent significant disruption to public transport in London was the closure of the Central Line in 2003.⁴¹ This disruption affected trade at large retailers (such as John Lewis) and is also likely to have impacted particularly severely on small retailers located along the Central Line.⁴²

Some of the small retail organisations said that restrictions to car traffic could also have a significant effect on small retailers trade. For instance the introduction of local parking restrictions, Red Routes, limited waiting times and clamping, lessen the appeal of small retail outlets as compared to out-of-town shopping developments. This is because out-of-town developments can guarantee easy access by car together with ample parking facilities.⁴³ Other disruptions to roads such as road closures, and the digging up of roads will also affect retailers in London by disrupting consumers' accessibility to stores.

Disruptions to public or private transport are more of a problem for small retailers, than large retailers because small retailers are less able to spread the cost of such disruptions over a number of stores and they have less capital to weather the disruptions when compared to large retailers. Therefore it is important that the impact on small retailers of potential changes to streetscapes or changes to transport in London are considered by the relevant authorities.

Congestion charge

One of the small retailer organisations told us that the congestion charge had a negative effect on certain retailers in certain areas (both within and outside of the zone). Similarly the charge had a positive effect on other small retailers; for instance one of the small retailer organisations highlighted that the congestion charge had benefited members that sold congestion charge tickets. Overall the organisation said there had not been a uniform effect of the congestion charge across all areas and across all retailers.

The small retailer organisations all agree that the congestion charge has increased the cost of deliveries within the charging zone and they are concerned about the possibility of the congestion charge zone being extended.

It is likely that the congestion charge affects small retailers more than large retailers because they are less able to absorb the increase in costs. This is because delivery costs are likely to make up a higher proportion of the total costs of small retailers when compared to large retailers.⁴⁴

⁴¹ Commission for Integrated Transport, September 2003, *The Impact of Congestion Charging on Specified Economic Sectors and Workers*, p iii

⁴² Imperial College London & the Centre for Transport Studies, April 2004, *The Impact of the Congestion Charge on the retail sector*

⁴³ Asian Business Association Report, September 1996, *The prospects of the independent retail sector*, London Chamber of Commerce and Industry; Department of Health, Policy Action Team 13, *Improving shopping access for people living in deprived areas: A paper for discussion*, National Strategy for neighbourhood renewal.

⁴⁴ Commission for Integrated Transport, September 2003, *The Impact of Congestion Charging on Specified Economic Sectors and Workers*, p46

Therefore, whilst the congestion charge has had varying effects on small retailers, primarily depending on their location and whether they sell congestion charge tickets or not, all small retailers have been affected by an increase in the cost of deliveries. This is likely to impact more on small retailers than large retailers as the cost is spread over a lower level of sales.

3. Retail closures

As a result of the issues discussed above many small retail outlets are closing. Indeed while retail sales have increased over the past 20 years the number of businesses in the retail sector in the UK has fallen.⁴⁵ As well as the issues considered earlier in this paper there are a couple of issues, which particularly relate to the closure of small retailers and are considered below.

Succession

If the owner of a small retail outlet retires or dies and there is no one to take over the business (such as a child or family member) then the outlet may close. A recent report by the Small Business Survey⁴⁶ highlights that around 30 per cent of business closures might be regarded as succession failures. The report finds that smaller businesses (across all sectors) tend to be more at risk of succession failure than larger businesses because they tend to exhibit more of the risk signs: less emphasis on succession planning, fewer potential managers, and owner-managers with a 'lifestyle' approach to business ownership. In addition the market for small businesses is less efficient, particularly because small businesses have a smaller network of contacts and less access to an intermediary to act on their behalf.

The report highlights a number of areas where the market for buying and selling businesses might fail and need public sector intervention. This is important, because the report also finds, from what little evidence exists, that taking on an existing business is less risky than starting from scratch. This would suggest that taking on an existing business might be a more effective means for some to run their own business when compared to setting a business up.

The report finds that small businesses (across all sectors) located in disadvantaged areas have poorer access to capital compared to other areas of the country – which the report says lends support to the idea that succession problems might occur unevenly across the country. Moreover, whilst the report highlights that the likelihood of succession failure in specific sectors is an under-researched area, it states that small retail businesses, in general, have been identified as at particular risk from succession failure. Indeed, the issue of succession was raised by a number of the small retailer organisations, particularly in relation to Asian retailers.

Asian retailers dominate some sections of the independent retail sector: data from the Department of Health suggests that over 75 per cent of all convenience store and off-trade outlets in the UK are Asian-owned and managed.⁴⁷ The literature suggests that Asian retailers are leaving the industry because as the older generation retires or dies the younger generation are not taking over the businesses. One reason for this is because of a cultural emphasis on the importance of academic success. This has often led to the upcoming generation finding employment in the white-collar professions rather than continuing the family business.⁴⁸

⁴⁵ Thorpe D (Head of Research, John Lewis Partnership), October 1999, *Superstores and employment in retailing*, The National Retail Planning Forum

⁴⁶ Small Business Service, November 2004, *Passing the baton – Encouraging successful business transfers*

⁴⁷ Department of Health, Policy Action Team 13, *Improving shopping access for people living in deprived areas: A paper for discussion*, National Strategy for neighbourhood renewal.

⁴⁸ Asian Business Association Report, September 1996, *The prospects of the independent retail sector*, London Chamber of Commerce and Industry, p1

Whilst the issue of facilitating an efficient market for the buying and selling of small businesses might require public sector intervention (along the lines suggested in the Small Business Service report), it is not clear that the particular problem of Asian family succession requires public policy intervention. This is because, if the younger generation are achieving more academic success and choosing different occupations or careers over their family businesses this is something for the individual involved to decide and not really an issue for public sector intervention.

Freehold property sold

As the value of property increases proprietors that own their property freehold may find it more profitable to sell their property than continue trading from the premises. To some extent this is linked to the issue of large retailers moving into high streets because large retailers have more resources than small retailers to buy property. Therefore large retailers moving into high streets as well as the general rise in property prices may have increased the prices that can be achieved by small retail outlets, leading to more small retailers selling their premises.⁴⁹

Once again it is not clear that there is a need for public policy intervention in this area on grounds of economic efficiency.

⁴⁹ Colliers Conrad Ritblat Erdman, 2002, *Midsummer Retail Report*

4. Potential actions for small retailers

So far this paper has considered the main issues facing small retailers. This section considers a number of actions that may help small retailers to compete more effectively in the retail sector.

Buying groups/franchises

One of the main issues for small retailers highlighted in this paper is the buyer power of large retailers. Something that small retailers can do to counteract the buyer power of large retailers is to form buyer groups to negotiate with suppliers. For instance, one of the small retailer organisations told GLA Economics about a group it had formed, which was able to negotiate prices on insurance as well as prices with wholesalers.

One kind of buying group that some retailers form is called a symbol group. With symbol groups members pay a fee and are normally required to obtain a specified proportion of their goods from the symbol groups wholesaler. In return retailers get benefits from being part of the symbol group including group buyer power and therefore better prices and in some cases loans and financial support to extend or refurbish retail units.⁵⁰

Another way small retailers can access the benefits of a large buyer group, without the complexity of setting one up, is to join a franchise. There are various types of franchise but the most commonly associated with franchising is the business format franchise where the franchisor grants permission for the franchisee to sell the franchisors products or services. The franchisor provides a proven method of trading plus support and advice in setting up and operating the business.⁵¹ While there is a cost involved, if small retailers become part of a franchise they get the benefits of being part of a large organisation such as increased buyer power and brand identity (which was also an issue raised earlier in this paper).⁵²

Franchises can also offer potentially more benefits over a simple buying group, these benefits might include:

- A common store frontage
- Common prices on certain goods
- Deals with delivery companies
- Brand identity.

So it is important, for instance, that business support agencies are aware, in their business support programmes and services, of franchising/buyer groups as a means of alleviating some of the issues faced by small retailers in relation to their competition with large retailers.

Competing on quality

Another way small retailers can compete with large retailers is on the quality of service they provide. In particular small retailers, due to their size, may be in a better position than large retailers to provide a personalised service to customers. For example small retailers will in general tend to serve fewer, but more local, customers and employ fewer staff compared to

⁵⁰ McGoldrick P, 2001, *Retail Marketing*, 2nd Edition

⁵¹ McGoldrick P, 2001, *Retail Marketing*, 2nd Edition

⁵² Reynolds L & The Work Foundation, 2004, *Who is being served? McDonalds and the UK Enterprise agenda*

large retailers, which gives them more opportunity to get to know their customers and to use this to their advantage.

Specialisation

Another way that small retailers can compete in the retail market is by providing a very specialised service or by catering to a niche market. Joyce et al, when considering barriers to change for small businesses, suggest that small retailers may be in a better position to specialise, than large retailers, due to their size.⁵³ This is because large retailers tend to cater to the largest possible number of people and therefore do not focus on specific markets.

Measures to increase footfall

Increasing footfall may help to increase the sale of other goods by small retailers whilst customers are in the shop. Indeed there is evidence in the literature to suggest that some shoppers do change their allegiance in favour of shops that have a lottery terminal for instance.⁵⁴ There are a number of ways in which small retailers can increase the footfall in their stores such as selling tickets for the National Lottery and for the congestion charge for example.

Other forms of support

Outlined above are actions that small retailers themselves can take to compete more effectively with large retailers. Set out below are some actions where the public sector or other bodies may be able to help improve the competitiveness of small retailers.

More support for, or the establishing of, trade associations and chambers of commerce may help small retailers. Trade associations enable information sharing, lobbying of national and local government and can facilitate things like buying groups (highlighted above as being of importance to small retailers). Chambers of commerce help link retailers with other local traders, and can provide a way of lobbying local authorities on things like transport and public realm works. They can also help form the local focal point for initiatives like Shopwatch (to tackle retail crime in particular centres) for instance.

Local authorities and small retailers could work together more proactively on town centre strategies and management. While individual retailers can compete on quality and specialisation, if all retailers in a particular centre work together to better develop the area, possibly making the area itself into a destination for niche goods, this could increase the competitiveness of small retailers in the area.

Local authorities could also help small retailers comply with regulatory requirements more effectively, providing advice and help as well as inspection and enforcement. This is the approach behind things like the *Enforcement Concordat* agreed between central government and the Local Government Association for example.

⁵³ Joyce P, Woods A, McNulty T, and Corrigan P, 1990, *Barriers to Change in Small Businesses: Some Cases from an Inner City Area*, in International Small Business Journal, Vol 8, No 4, p56

⁵⁴ Asian Business Association Report, September 1996, *The prospects of the independent retail sector*, London Chamber of Commerce and Industry, p7

5. Conclusions

The market share of large retailers has increased over the past 20 years.⁵⁵ This increased scale has resulted in increased buyer power for large retailers, which in turn has resulted in large retailers being able to sell goods at lower prices than small retailers in many instances. On top of this, small retailers have seen their previous comparative advantage in terms of both location and opening hours eroded by large retailers (in particular grocery retailers), for example by large retailers moving into small format stores in high street locations and extending their opening hours. Whilst such changes can be disturbing for the small retailers involved, for the most part these changes are a result of market forces and on the grounds of economic efficiency should not be resisted by public policy.

While the costs of operating in London, as compared to the rest of the country, are higher for all retailers, there are some costs that impact particularly on small retailers. The cost of crime appears to fall more heavily on retail as compared to other sectors and on London as compared to other regions. In addition, the costs of complying with Government regulations, for example the Disability Discrimination Act fall disproportionately on small retailers. Local authorities and other bodies such as chambers of commerce or trade associations, could provide support and/or advice to small retailers on compliance with regulations in order to reduce the costs of implementing the legislation.

Customers' access to retail outlets is an issue for all retailers in London, however some of the issues of access affect small retailers more acutely than large retailers. This is because large retailers can spread the cost of disruptions to customer accessibility over a greater level of sales, (frequently across a greater number of stores) when compared to small retailers. Therefore it is important that changes to streetscapes or changes to transport in London consider the impact on small retailers who are likely to be disproportionately affected by any changes, in order to reach a more 'small-retailer friendly' solution.

The issues discussed in this working paper, and specific issues such as succession, have resulted in a number of closures of retail businesses. However there are a number of ways that small retailers can compete more effectively, for example by forming buying groups, competing on the quality of service they provide or by specialising.

⁵⁵ Thorpe D (Head of Research John Lewis Partnership), October 1999, *Superstores and employment in retailing*, The National Retail Planning Forum

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Online resources

Business Link

www.businesslink4london.com

Department for Culture Media and Sport

www.culture.gov.uk/

GLA Economics

www.london.gov.uk/mayor/economic_unit

GLA Economics' publications

www.london.gov.uk/mayor/economic_unit/glaepublications.jsp

Keynote

www.keynote.co.uk

Office for National Statistics

www.statistics.gov.uk

Office of the Deputy Prime Minister's Planning Policy

www.odpm.gov.uk/index.asp?id=1143802

Yell

www.yell.com/ucs/HomePageAction.do

Acronyms

CASA	Centre for Advanced Spatial Analysis
GB	Great Britain
GLA	Greater London Authority
IT	Information Technology
LDA	London Development Agency
OFT	Office of Fair Trading
ONS	Office for National Statistics
PPG6	Planning Policy Guidance 6
PPS6	Planning Policy Statement 6
TfL	Transport for London
UK	United Kingdom
UORR	Upward only rent reviews

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Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دیئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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